EXHIBIT 8

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New REITs Pounce on Distressed Mortgage Assets

By Janet Morrissey

Here come the vultures.

A flurry of private-equity players are turning to IPOs to capture what they believe could be the biggest buying bonanza of troubled real estate assets since the early 1990s.

Since June, at least eight entities, including such high-profile names as Apollo Global Management, Colony Capital LLC and Starwood Capital, have filed with the Securities and Exchange Commission to launch initial public offerings of new real estate investment trusts (REITs). The plan is to use proceeds from the IPOs as well as government financing programs to either purchase or originate real estate loans and mortgage-related securities on the cheap. (See pictures of high-end homes that won't sell.)

Some industry experts believe that returns from these investments could rival the huge profits pocketed by investors during the Government Resolution Trust Corp. bailout of the savings-and-loan debacle of the late 1980s and early '90s. Back then, vulture investors picked up distressed assets at pennies on the dollar, and returns often exceeded 100%.

"The similarities are huge, except this time the opportunities seem to be on the debt side as opposed to the equity side," says Bob Bach, chief economist with Grubb & Ellis Co., a commercial real estate services and investment company.

Many players believe there's opportunity now for similar triple-digit returns. "I think several hundred percent [return] is possible" if leverage is used, says Anton Schutz, portfolio manager of the Burnham Financial funds, which have been investing in the sector since last fall. However, he believes the biggest buying opportunities are still six to 12 months away. (See the top 10 scared stock traders.)

"I think you're seeing the cycle repeat itself all over again, and Starwood and all of these guys are seeking to capitalize on the dislocation in the credit markets and purchase distressed debt that's out there," says Fox-Pitt Kelton Cochran Caronia Waller analyst Matthew Howlett.

The benefits of using a REIT structure are threefold: private-equity firms can access equity capital quickly, use shares as currency in making future acquisitions and distribute a dividend to attract investors, says Steven Marks managing director at Fitch Ratings.

Also, many private players plan to take advantage of federal financing programs, such as TALF (Term Asset-Backed Securities Loan Facility) and PPIP (Public-Private Investment Program), which will give them low-cost financing when acquiring troubled assets, making their potential returns even frothier. (See the top 10 financial-crisis buzzwords.)

Mortgage REITs make money through spreads: the wider the spread — or gap — between funding costs and yields on mortgages they purchase, the bigger the profit.

Currently, there is $978.9 billion in commercial mortgage-backed securities (CMBS) and $6.65 trillion in residential mortgage-backed securities (RMBS) outstanding in the U.S. market, according to Dealogic. Of those, more than $90 billion in CMBS and more than $110 billion in RMBS will mature within the next three years, the firm says.

Private-equity players are betting they'll be able to snap up the securities at bargain-basement prices. After all, the debt will come due amid rising unemployment and a deepening meltdown in the commercial real estate market.

Bach expects the jobless rate to top the 10% mark, office rents to plunge another 5% to 10% and vacancies in commercial real estate to exceed 20% by the middle of 2010 — surpassing the 18% vacancy peak hit during the early 1990s crisis. The doom-and-gloom scenario will likely lead to higher default rates on commercial property loans held by banks and those pooled into mortgage-backed securities.

All of this has private-equity players salivating.

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"We believe that the next five years will be one of the most attractive real estate investment periods in the past 50 years," says Starwood Property Trust Inc. (STWD), an affiliate of closely-held Starwood Capital Group, in its July 29 IPO filing. The company, which is headed by real estate mogul Barry Sternlicht and went public last week, believes real estate became "significantly overpriced" in the go-go years of the past decade, and that "a significant price correction" is under way.

And there will be plenty to buy. "There's probably a lot of financial institutions that hold mortgage debt today that just can't hold it long-term and will eventually have to be sellers, whether it's regional banks or major financial institutions that need to deleverage," says Greg Ressa, a partner and head of real estate at Simpson Thacher & Bartlett LLP. (See 25 people to blame for the financial crisis.)

However, the strategy isn't without risk.

First, if a tsunami of private-equity players and REITs jump into the sector, competition for assets will heat up, which could drive prices up. If this happens, potential profits will shrink, says Tom Fink, senior vice president of Trepp LLC, a commercial-mortgage-research firm.

Second, pricing the asset right is tricky. If real estate fundamentals continue to deteriorate over an extended period of time, more loans will go into default and the value of the mortgage securities will decline further. This could cause problems for entities that overpay. "If you buy a mortgage at 60 cents on the dollar, it's only a good deal if the underlying values come back," says Ressa.

Third, there's no guarantee that financial entities will be willing to sell assets at fire-sale prices. With the federal government and Federal Reserve offering bailouts, many don't have guns pointed at their heads forcing them to pull the trigger on distressed assets.

So far, investors have been cautious on the group, giving only lukewarm receptions to four entities that recently went public in the sector: PennyMac raised only $335 million in its IPO — less than half of the $750 million it had expected — and its stock fell below its opening price after trading began; Invesco Mortgage Capital Inc. (IVR) raised $170 million; and Cypress Sharpridge Investments (CYS) grabbed $100 million. Starwood fared better, raising $810 million — the second largest IPO this year — but its share price also slipped below its IPO price the first day. (See which businesses are bucking the recession.)

Investors may be jittery, having watched a number of mortgage REITs, such as New Century Financial Corp. and American Home Mortgage Investment Corp., file for Chapter 11 bankruptcy protection over the past couple of years, and others, such as Arbor Realty Trust and Gramercy Capital, struggling to stay afloat. Even Starwood's newest offering could stir concerns if investors check out the sour performance of one of Sternlicht's previous specialty finance companies, iStar Financial (SFI).

Still, at least seven more IPOs are in the pipeline, including offerings from Colony Capital, Apollo, Alliance Bernstein, Bayview Asset Management (which is partly owned by Blackstone Group), Ellington Management Group, Western Asset Management and AG Financial Investment Trust.

"Not all of these offerings will get done," predicts Marks at Fitch Ratings. "A lot of them have similar business plans ... It comes down to the strength of the management team."

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